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April 2, 2008

PARTIES OF RECORD

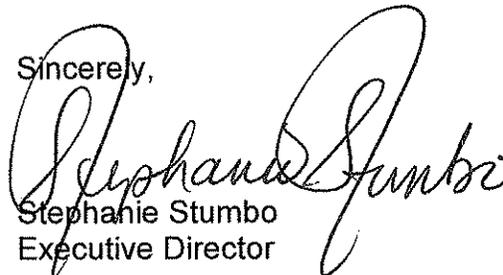
RE: Case No. 2007-00436

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within 14 days of receipt of this letter.

Commission Staff requests that if Farmdale Development moves to specifically request a formal hearing, it should include a list of all objections to the Staff Report within that motion. Failure to object to a staff recommendation will equal acceptance of that recommendation.

Questions regarding this memorandum should be directed to Tiffany Bowman at (502) 564-3940, extension 465 or by e-mail at TiffanyJ.Bowman@ky.gov.

Sincerely,



Stephanie Stumbo
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Tiffany Bowman
Staff Attorney

DATE: April 2, 2008

SUBJECT: Case No. 2007-00436
Application of Farmdale Development Corporation for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities

An informal conference ("IC") was held in this matter on Thursday, March 27, 2008. A copy of the conference attendance list is attached. In attendance were Commission Staff, representatives for Farmdale Development Corporation ("Farmdale"), Intervenor Kenny Glass and Linda Ethington, and counsel for the Office of the Attorney General.

During the course of the IC, the parties discussed the following issues:

- Customer Number and Surcharge –The parties discussed the differences in averaging monthly customer totals versus using the customer total in the final month of the application test year. The parties also discussed the 5-year surcharge which is already being collected by Farmdale.
- Depreciation Cost – The parties discussed whether 5 year or 7 years served as the appropriate time period for amortization. No agreement was reached.
- Treatment and Disposal Survey – Discussion of whether this should be a non-recurring charge. No agreement was reached.
- Sludge Hauling – Parties discussed potential adjustments to Commission Staff's recommendation in light of the current surcharge to clear the lagoon. No agreement was reached between the parties. Farmdale stated that it could provide an affidavit on the free labor services that were provided to the company for sludge hauling.
- Fuel/Power for Pumping – Farmdale stated that it was seeking to recover \$3,000+ in previous power costs as a non-recurring expense due to the extraordinary nature of the costs; Farmdale stated that it might agree to

the amount proposed by Commission Staff if it were allowed to amortize the previous \$3,000+ over several years. The Attorney General asked why the projected 2008 power costs were less than what is requested in the rate case. The Attorney General discussed whether awarding past costs qualified as retroactive rate-making. The parties discussed the issue of "reserve funds" and how depreciation should be incorporated into a utility's financial reserves. No agreement was reached between the parties on this issue.

- Interest Expense – The parties discussed Case No. 2006-00028, wherein the issue of interest expense recovery for Farmdale's commercial loan for repairs and improvements to the remote lift station was addressed. The Attorney General stated that recovering such interest might qualify as a reimbursement, which is not permitted. Intervenor Glass asked questions regarding the size of the loan interest. The parties reached no agreement as to Farmdale's interest expense recovery request.
- Owner/Manager Fee – Commission Staff provided examples of water district commissioner salaries for a few utilities across Kentucky (*see the attachment to this memorandum*). Farmdale asked whether those particular commissioners also served as employees or served as customers to those districts. The Attorney General stated that the districts to which Farmdale compared itself are different in size and need. Farmdale stated that Commission Staff should take Mr. Cogan's years of experience as an owner-manager and the extent of his duties compared to water commissioners as factors for increasing the fee, as well as the fact that Farmdale provides treatment services in addition to the collection of sewage. No agreement was reached between the parties on this issue.
- Agency Collection Fee – The parties discussed the current billing arrangement with Farmdale Water District. Commission Staff stated that the Commission may not be able to compel the water district to reduce its fee, as the collection and billing is an ancillary service over which the Commission may not have jurisdiction. Farmdale discussed why it considers the current collection arrangement with the water district to be advantageous. Commission Staff suggested that Farmdale contact other utilities for billing arrangements, particularly Bluegrass Energy and Frankfort Plant Board. Farmdale stated that the Frankfort Plant Board had declined Farmdale's request. Commission Staff asked Farmdale to provide evidence of that denial in writing. The parties also suggested contacting Franklin Fiscal Court to ask it to request that the water district reduce the fee charged to the sewer company. Commission Staff raised the issue of whether the specific repairs and improvements authorized and

funded by the \$9.92 surcharge will be underfunded because 15% of the surcharge revenues are being diverted to Agency Collection Fees, assuming that Farmdale Water District is withholding 15% of the surcharge revenues and remitting to Farmdale only the remaining 85%. Commission Staff discussed whether Farmdale had considered the possibility of self-billing only the surcharge so as to avoid the water district's collection fee. No agreement was reached between the parties on this issue.

The parties reached no agreement on the recommendations issued in the Commission Staff report. The parties discussed the likelihood that this matter would need to be heard by the Commission in a formal hearing.

The parties agreed to submit comments to the IC memo within 14 days of receipt of the memo. Farmdale also agreed to submit a motion for a formal hearing within 14 days of receipt of the memo, if so desired.

Attachments.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2007-00436

APPLICATION OF FARMDALE DEVELOPMENT CORPORATION FOR AN
ADJUSTMENT IN RATES PURSUANT TO THE ALTERNATIVE RATE FILING
PROCEDURE FOR SMALL UTILITIES

SIGN IN

March 27, 2008

PERSON	REPRESENTING
<u>William Bowman</u>	<u>PSC Staff</u>
<u>P.O. (Bob) Roberts</u>	<u>PSC STAFF</u>
<u>Eddie Beavers</u>	<u>PSC Staff</u>
<u>Jack Kaninger</u>	<u>" "</u>
<u>Kenny Glass</u>	<u>Property Owner</u>
<u>Linda Elington</u>	<u>Property Owner</u>
<u>Larry Smith</u>	<u>FARMDALE</u>
<u>Gardell F. Cogan</u>	<u>FARMDALE</u>
<u>Robert Moore</u>	<u>Hazardous & Cor</u>
<u>Annis Jones</u>	<u>PSC Staff</u>
<u>David Spenard</u>	<u>Office of the Attorney General</u>

Water District Commissioner Salaries

Utility	2006 Commissioner Salaries	2006 Customers
1. Black Mountain WD	0	1,893
2. Crittenden-Livingston WD	0	3,062
3. Cunningham WD	0	152
4. Dexter-Almo WD	\$5,400	746
5. Fancy Farm WD	\$2,913	433
6. Fountain Run WD	\$4,500	516
7. Garrison-Quincy WD	\$6,600	1,338
8. Hardeman WD	\$3,600	334
9. Ledbetter WD	\$2,900	1,198
10. Milburn WD	0	149
11. Reid Village WD	\$3,500	1,081
12. Sedalia WD	0	161
13. South 641 WD	0	349
14. Symsonia WD	0	299
15. Trimble County WD	\$9,000	1,407
16. Western Mason County WD	\$7,500	1,623

Notes:

-7 of 16 pay no salaries to Water District Commissioners.

-Only 3 of the 16 pay all their Commissioners in total more than the amount recommended for Farmdale of \$6,000.

-13 of the above 16 have more than Farmdale's 241 customers.

Wilma Adkins
271 Cherry Lane
Frankfort, KY 40601

Bobby Anderson
136 Strawberry Lane
Frankfort, KY 40601

Elizabeth Baker
264 Cherry Lane
Frankfort, KY 40601

Robert Berne
109 Stable Lane
Frankfort, KY 40601

Ursula Burchett
123 Strawberry Lane
Frankfort, KY 40601

Archie Chaney
266 Cherry Lane
Frankfort, KY 40601

Carroll F. Cogan
President
Farmdale Development Corporation
1706 Bardstown Road
Louisville, KY 40205

Kenard Corele
270 Cherry Lane
Frankfort, KY 40601

Deborah Deimel
276 Cherry Lane
Frankfort, KY 40601

Angela Drane
128 Strawberry Lane
Frankfort, KY 40601

Linda E. Ethington
5698 Louisville Road
Frankfort, KY 40601

Peggie S. Gardner
185 Briarwood Drive
Frankfort, KY 40601

Kenny & Marilyn Glass
223 Briarwood Drive
Frankfort, KY 40601

Stephane Haerei
259 Cherry Lane
Frankfort, KY 40601

Michelle Hartman
958 Green Wilson Road
Frankfort, KY 40601

Leslie Hyatt
Cherry Lane
Frankfort, KY 40601

Gabe & Brook Jenkins
127 Strawberry Lane
Frankfort, KY 40601

Robert L. King
254 Cherry Lane
Frankfort, KY 40601

Chris Lee
288 Cherry Lane
Frankfort, KY 40601

Albert Loman
102 Stable Lane
Frankfort, KY 40601

Garry Lucas
344 Farmers Lane
Frankfort, KY 40601

Randall Mills
114 Briar Wood
Apt 2
Frankfort, KY 40601

Honorable Robert C. Moore
Attorney At Law
Hazelrigg & Cox, LLP
415 West Main Street
P.O. Box 676
Frankfort, KY 40602

Barbara J. Pulliam
284 Cherry Lane
Frankfort, KY 40601

Dixie Rash
103 Stable Lane
Frankfort, KY 40601

Joe Ray
113 Stable Lane
Frankfort, KY 40601

Carolyn Rayborn
132 Strawberry Lane
Frankfort, KY 40601

Amber Skirvin
260 Cherry Lane
Frankfort, KY 40601

Mr. Elva Slone
974 Green Wilson Rd.
Frankfort, KY 40601

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Jacqueline Taylor
115 Stable Lane
Frankfort, KY 40601

Robin Taylor
263 Cherry Lane
Frankfort, KY 40601

Cindy Thomas
275 Cherry Lane
Frankfort, KY 40601

Joseph Tyson
281 Cherry Lane
Frankfort, KY 40601

Samuel A. Wiley
114 Strawberry Lane
Frankfort, KY 40601

Carey Wilson
105 Stable Lane
Frankfort, KY 40601

Mark Wilson
287 Cherry Lane
Frankfort, KY 40601

Tom Wise
107 Stable Lane
Frankfort, KY 40601